BURLINGTON INTERNATIONAL AIRPORT
STRATEGIC PLANNING COMMITTEE

Meeting of December 13, 2012

Co-Chair CAO Paul Sisson convened the seventh meeting of the Committee at 5:46 p.m. on December 13, 2012 at the Hamilton Room of the Burlington International Airport. Present were Co-Chair Karen Paul, Committee members Jane Knodell, Jeff Schulman, Louise Stoll, Michael O'Brien, Vince Dober, Sandy Miller, Ann Beland and Ed Colodny. Also present were Counsel/Staff Joseph McNeil, Airport Staff members Gene Richards, Heather Kendrew, Bob McEwing and Ryan Betcher. Airport Commissioner Bill Keogh and South Burlington City Council Chairperson Roseanne Greco were also present, as were Michael Wheet and Adam Whiteman of Frasca & Associates, LLC.

The meeting agenda was first approved unanimously on motion of Karen Paul and Louise Stoll.

The Committee deferred on the acceptance of the minutes of the November 15, 2012.

There were no speakers at the public forum.

The Committee then received a presentation from Mr. Emmet McCann and Mr. Tim Reynolds of High Star Infrastructure Corporation concerning the topic of public/private partnerships for operation of public airports.

High Star indicated that its principal efforts involved raising capital for major projects in the United States and the world. They stated that they were currently in the process of finalizing in San Juan Puerto Rico the first fully integrated public/private partnership of a public airport in a decade.

They stated that the genesis for their work is derived from being involved the finance and operation of some 83 ports in the United States, including the major US ports at Baltimore, Maryland and Oakland, California.

From their perspective, a well-structured public/private partnership would involve an agreement with a public entity to operate a public facility such as an airport for a period of 30-50 years in exchange for some combination of up front capital payment and annual rental payments to the public entity. In exchange, the private partner would have exclusive management responsibility for the facility, its contracts, its personnel and its capital assets for the duration of the contract period. They pointed out that typically such a partnership does not involve the fee simple sale of the public assets, but merely the leasing of them for a substantial period of time.

They indicated that the major advantage to be gained by the public entity in addition to the financial payments was first class management with expertise relating to contracting, route development, etc. They noted that it was imperative that the public/private partnership agreement be most carefully drafted to have specific detail covering all aspects of anticipated operational, capital development and financial details. They noted that with regard to San Juan, the arrangement calls for a $615 million up-front payment together with annual payments thereafter. The name of the entity in San Juan is Aero Star.

Jane Knodell asked whether the employees at the facility remain public employees the answer was that they become employees of the private entity. They noted that a carefully crafted agreement would involve an appropriate balance between regulation/contractual obligations on the one hand and freedom of movement for the private manager on the other.

Tim Reynolds then spoke to the major objectives of the process being as follows:

1. Complete understanding of long term goals and objectives between public entity and private partner.

2. Reasonable and manageable expectations on both sides so that a true partnership exists.

3. Complete commitment to the success of the project particularly with regard to the revenue sharing arrangement.

4. Ultimately, a win win relationship that reflects "a reasonable and understandable alignment of interests."

Mr. Reynolds gave an example of how such an arrangement could go bad, with specific reference to parking arrangements at Chicago being not clearly thought through.

Aviation Director Richards asked High Star why Burlington would want to do something like this. They responded by indicating that they did not feel they were currently in a position to report on any analysis specifically relating to Burlington Airport, but instead were commenting generally on this type of arrangement and what it can achieve in appropriate circumstances. They indicated that much study would be necessary before a determination could be made that BIA would be an appropriate facility for this type of arrangement. They emphasized that they put great weight on such considerations as the continuity of management; the opportunity to grow roots and enplanement revenues because of their knowledge and connection to the industry; a continuous awareness of what's important to passengers using airport facilities such as having food and retail in the right places; wise decisions regarding the utilization of capital assets and that this all be accomplished without degradation of security, safety, etc.

High Star pointed out that this type of an arrangement involves an exception to the normal rules and regulations that apply to publicly owned airports that preclude the diversion of aviation derived revenues to other public purposes. They noted that specific FAA advance approval would be required concerning nearly every aspect of the partnership and that the private partner would need a “part 139 licensure.”

Ed Colodny asked whether the financial obligations created on behalf of an airport operating in this manner are joint and several between the private and public partners. The answer was that it would depend on the type of agreement that was structured. High Star saw its major strength as being able to enhance commercial revenue development and to maximize the efficiencies available through expert control of operating expenditures, keeping a focused eye on the bottom line at all times.

Jeff Schulman asked about specific governance relationships in the San Juan deal. The answer they are still being determined.

High Star also emphasized that it believes another strength it has is that on the basis of its financial experience operating and financing US ports it would anticipate being able to secure an investment grade rating for any financing at BIA.

Ed Colodny asked who were High Star’s major competitors in this arena. The answer was Morgan Stanley, Goldman Sachs, OP Trust, Veravall (a Spanish company) and McLory.

Karen Paul noted that the work on the partnership in Puerto Rico has already consumed 2.5 years, giving an indication of the amount of up-front due diligence that could be expected were BIA interested in this format.

Michael O’Brien inquired whether BIA would be regarded up front as an attractive market for this type of relationship and once again High Star noted that they haven’t proceeded that far with any analysis of BIA except to believe that there seemed to be significant opportunity for BIA to develop as an O&D market. They noted that with regard to Puerto Rico, JetBlue’s commitment to a substantial concession agreement that was "balanced, fair and enforceable" was a very positive factor as was excellent political leadership that was committed to make the project be successful. They noted that a great deal of money had been spent in advance to most carefully evaluate the risks and benefits to both sides of such a proposed venture.

Ed Colodny asked High Star what it was looking for typically in terms of return on investment. They indicated that, given the risks they typically absorb, they would like returns in the low teens and would typically like a 50/50 debt to capitalization ratio. They noted that High Star is ultimately a fund that is part of portfolios such as the pension portfolio of the State of Oregon. It was formally a part of AIG but has been independent for approximately 14 years. Its interests in airports as an operating aspect is relatively new to the company.

As of this juncture, High Star was thanked for its presentation and its representatives left the meeting. Committee discussion ensued. The Co-Chairs indicated that Michael Wheet and Adam Whiteman of Frasca had been just most recently very helpful in securing the Airport revenue bond. They indicated that it might be very helpful for the Committee to hear Frasca's take on the presentation that was just made.

Adam Whiteman indicated that he found the presentation interesting in that the High Star representatives seemed to stress exactly the same factors for success as those that the SPC and Airport Management, as well as Frasca have been indicating are essential for BIA's future.

Michael Wheet noted that there are essentially three options for publicly owned airports, namely public operation in the form of a single governmental entity or a regional authority; private operation or some combination of the two. He noted that governance changes tend to be made when there is a desire to limit risk or a need to enhance efficiency. He stated that the question for the SPC is whether BIA was itself capable of securing the listed objectives with good management and assistance to guide it.

Adam Whiteman noted that there is a major difference between operational environments at US airports and those elsewhere because of the direct involvement of the federal government in finance and regulation.

There was then a general discussion about the Committee's views concerning the best management structure for BIA into the future. Jane Knodell and Ed Colodny both pointed out that private management doesn't always mean the best management. Louise Stoll indicated a strong preference towards continuing to operate as a public entity but with a strong, independent governing commission that reduced a number of governmental layers. She asked for examples of very well run airports and was advised by Adam and Michael that both Dulles and National Airports in the DC area are particularly well run. She asked further about well-run airports that are approximately the same size as Burlington and Frasca made mention of Orange County, California and Augusta, Georgia with Orange County Airport being a department of county government and Augusta being managed by a strong governing commission.

Jeff Schulman emphasized his continuing concern about a single governmental entity bearing 100% of the financial risk for a facility that is at least regional if not of statewide significance.

Gene Richards noted that with more concentrated authority there may be opportunity to more effectively deal with existing demands and distractions such as taxi regulation and police services. Sandy Miller noted, however, that for a public entity "distractions" will never cease, that it is just a factor of public existence that there are a range of issues to be dealt with.

Louise Stoll noted that there is no way that an entity with as broad a responsibility mandate as the Burlington City Council will ever truly have sufficient time to run an airport. Her belief is that a more independent Airport commission is a governing methodology that should receive serious consideration from the SPC. Co-Chair Paul noted that it was the charge of the Committee to look at all governance models. Gene Richards stated that it would be very helpful to receive a more detailed and formalized review of the pluses and minuses of various governance formats from Frasca at the next meeting. The Committee agreed.

Jane Knodell requested that the Committee be given copies of the Fitch & Moody's ratings analysis in connection with the most recent bond issue as well as the Official Statement that was prepared for that issue.

The next meeting was set for January 10, 2013.

There being no further business to come before the Committee, the meeting was adjourned at 7:40 p.m.

Joseph E. McNeil,
Committee Clerk

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